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ABSTRACT

Weaknesses of the traditional incremental budgeting approach are considered as background to indicate the need for a new system of budgeting in educational institutions, and a step-by-step description of zero-based budgeting (ZBB) is presented. Proposed advantages of ZBB include the following: better staff morale due to a budget that is open and justified; decision packages conveying an understanding of the whole operation; better job satisfaction; and hopefully less turnover of valued personnel. The major disadvantages of ZBB include: much paper work and time must be devoted to the effective use of the system; the system may not improve the organization; and the decision packages are hard to develop and ranking is difficult. It is suggested that ZBB be used every four or five years. (Author/SW)

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A Capsule Look at Zero-Base Budgeting

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A Capsule Look at Zero-Base Budgeting

A difficult function in the administrative domain is budgeting. Part of the difficulty stems from the various methods available for utilizing the assets at hand. There are several budgeting processes to which educational administrators have access. Incremental budgeting has been one of the favorities in educational settings because of the slower growth of wealth, the perspective of past history, the ease of implementation, and the extent of accuracy. This system leads to hard choices among completing departments and programs. Incrementalism is so named because a portion (increment) of the previous budget is added to that budget to create a higher total for the next year.

The system has been attacked as closed to scrutiny and exclusive of revelant comparisons. Many educators have begun to question the integrity of this system and looked for possible alternatives. Into this situation, zero-base budgeting (ZBB) was introduced. The purpose of this article are to provide a description, discuss advantages and disadvantages, and suggest that zero-base budgeting can provide an alternative in budgeting of educational institutions.

ZBB is a "new budgeting approach that focuses on a complete justification of all expenditures." (Harvey 1977). The budget is built from the zero point and not from the previous year's base. Then every item or program is justified, and changes become more obvious. The incremental approach may lead to

inflated or padded requests rather than efficient ones. ZBB is a routine way of reviewing all budgetery concepts to keep costs current with need while all programs together The purpose of the study is to eliminate programs that do not warrant continued existence and reduce programs that are not neccessities. The study allows for funding of the programs that are worthy.

Description

Before a review of concepts can occur, an implementation strategy has to be developed. The staff must be educated to the procedures to be followed in ZBB. The system should be diagrammed and defined so everyone understands it. After the planning stage, adequate time must be allocated to the development of the budget.

Three steps are involved in the preparation of a zero-based budget. Step one involves defining the budget units, step two is the development of decision packages, and step three is the ranking of the decision packages.

Step one is defining the budget units. Budget units are constructed from the objectives of the organization. When these objectives have been formulated and set for future goals, operations can be organized to achieve the objectives. Each operation can be a separate unit, or it can be divided into smaller units. After the unit is defined, every function it contains is isolated and closed out.

Step two is the development of decision packages. Each decision package is formulated from a budget unit. A package identifies a unique program, service, function, or operation in a manner designed to provide for meaningful comparision and evaluation. (Yagielski, ED 136419: 1975).

To accomplish these objectives, a package has to include: 1) a definition of what is included in the budget unit; 2) as explanation of why the program is necessary for the advancement of the organization; 3) a description of planned activities of the program which describe how objectives are to be attained; 4) a means of measuring the success of each activity to evaluate performance of the objective; 5) a scale of responsibilites so workloads may be assigned; 6) a description of the operational environment to elucidate to conditions under which the program is undertaken; 7) alternative courses of action to accomplish the same objectives; 8) the consequences of selecting each alternative; and 9) measures for costs and benefits from the program with differing levels of staff effort and organizational commitment. (Langston 1979).

Step three in ZBB involves the ranking of the decision packages. After the lowest level of line managers put together the packages and rank them, the next level has to utilize the contents of each package along with a familiarity of the programs to review the rankings and levels of effort. The rankings may be altered as the decisions are made at higher levels of management. Some educational organizations might have

three or four levels of authority and different rankings. Each new level is further removed from the actual operations and depends heavily on the previous rankings, personal knowledge, and intuition. The last ranking at the top of the management scale hopefully places the packages into priorities by reviewing the needs of the organization. Then the top priorities will be funded while programs at lower priorities will be dropped.

ZBB Advantages

The review of programs through the budgeting precess leads to many advantages. It is possible that the process will lead to better staff morale because everything in the budget is open and justified. The budget is broken into small pieces, decision packages, which convey a fuller understanding of the general operation of the educational organization. Because there is a need for effectiveness from the total plan, better program justification is required. Line managers have a much larger role in the budgeting process by formulating the decision packages. These two functions increase the upward communication in the organization, as well as motivate an interest in understanding the decision-making activities.

Greater job satisfication and an increased desire for developmental opportunities are often cited as advantages of ZBB. This will cause less turnover in the system of valued personnel.

The review creates a cost and benefit analysis for every program. The analysis creates at every level a consciousness of the cost of each aspect of a program and the benefits derived from the program. The review lessens the chances for empire building and gives the top management a better basis for making judgments.

ZBB Disadvantages

The time and effort required to achieve a highly cost-effective budget is the major disadvantage in the use of ZBB. More paperwork is required than most other systems. A decision package has to support every aspect of operation so that ranking can occur. When all the decision packages are complete, days may be spent at each level of authority in the ranking process. This is expensive time taken away from operations for what may seem to be an ineffective method for making changes in funding levels. It appears that many organizations either have no shift in funding as a result of using ZBB or are uncertain whether a shift has taken place. (Austin 1977).

The contention is made that the budgeting system might not improve the efficiency of allocating resources. The lack of efficiency could be due to a negative attitude to the system in the administration, to poor formulation of decision packages, or to biases in the ranking process.

There is considerable difficulty in developing the decision packages and ranking them. The lower level management has little motivation to rank the decision packages proficiently since the decisions will be subject to higher level changes. Other staff are placed in a tenuous position by those decisions because their jobs are at stake. The process places the entire organization in a state of agitation and disruption.

Conclusion

Zero-based budgeting has a limited history in educational institutions. Little sound evidence is available to indicate the impact it will have on educational funding practices. Austin's study on impacts and effects of ZBB indicated that resources were allocated more effectively, costs and personnel were reduced, planning was facilitated, and decision-making was improved. Each outcome improved the total organization.

Annual utilization would probably provide returns, but when used every four or five years, the renewing and refreshing aspects of the system seem to be maximized. Zero-based budgeting can be an effective tool for assisting in the successful continuation of an educational organization.

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